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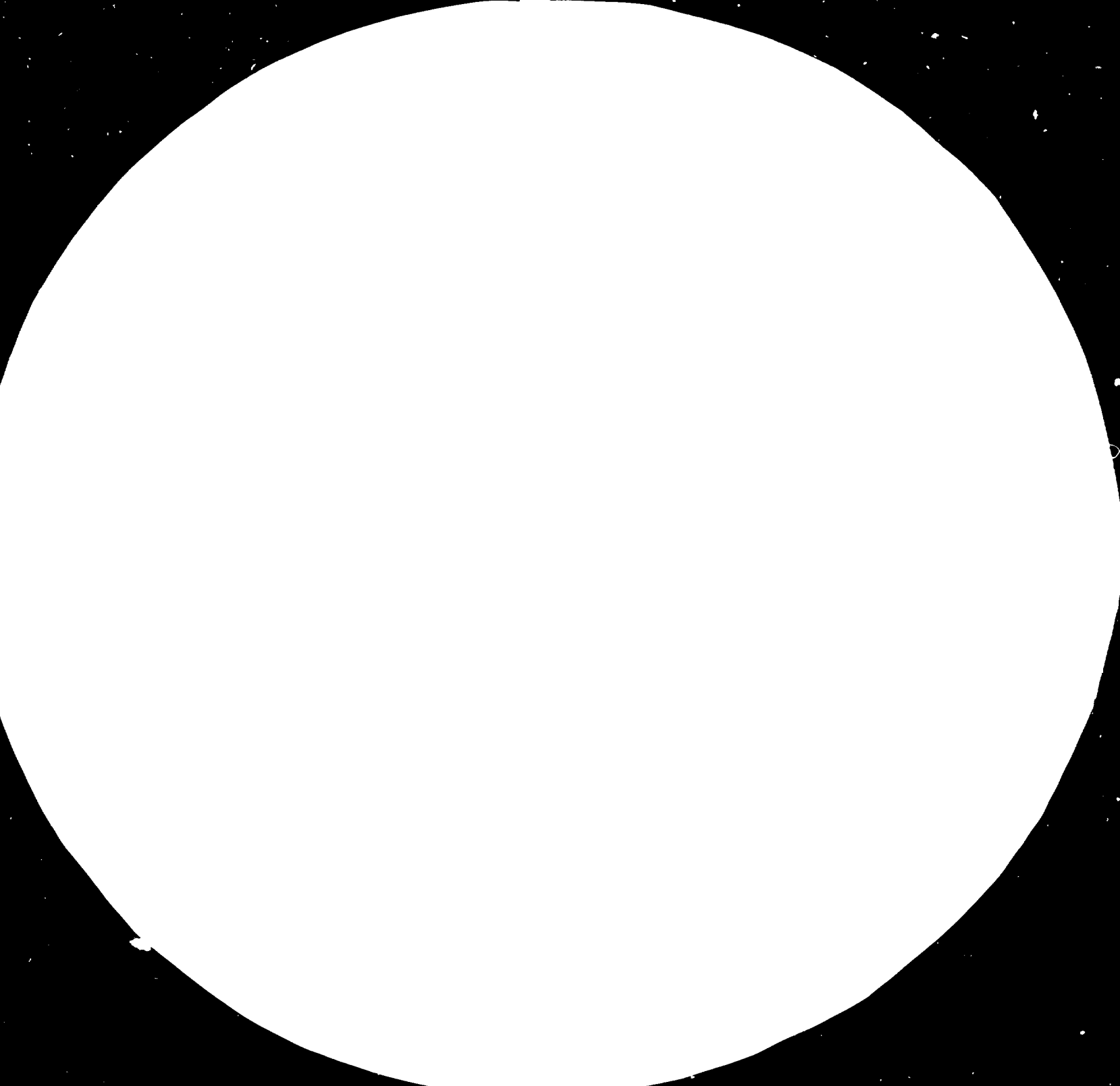
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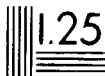
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Reports on meetings regarding Arab petrochemicals and capital goods industries.

January 12, 1984

Report on the meetings of the Expert Group on Arab Petrochemicals in Riyadh, Saudi Arabia, Jan. 9-12, 1984

UC/RAB/82/122 | UC/RAB/82/123

The meetings were held at the Saudi Consulting House (SCH) to review the Report on Arab Development Perspectives in Petrochemical Products prepared principally by the SCH. Over 12 experts attended the meetings and UNIDO was represented by Mr. T. Al-Khudayri, IS/SEC and myself. Mr. Al-Khudayri attended all the meetings, I could only attend some of them having had received my visa with an unfortunate delay for which the SCH has assumed responsibility.

The details of the discussions should be obtained from Mr. Al-Khudayri. I have on my part held special discussions with Dr. Ahmed Al-Shafai Darwich (the major author of the Report) and Mr. Al-Khazlan (Deputy Director of SCH) Mr. Ali Rabiah (SCH) and Mr. F. Jalal (AIDO). I wanted to impress upon them the need to integrate our results with theirs, especially as I noted that their Report lacks a systematic future outlook on Arab and World demand for petrochemical products. It is true that they cover 36 products and our report covers only 22 products but these are the major set of products. Besides, our study considers some questions that are not covered by the SCH Report and they could be added to the Report with considerable benefits. Of particular importance is the question of size and ease of entry into international markets.

I believe Mr. Ghani could bring these questions to the attention of AIDO. Mr. Jalal is already aware of these points. He informed me that AIDO has not yet studied our study. I believe that some pressure should be applied to solicit their views on the document and on introducing it into the conference documents either separately (which I still prefer) or as part of the SCH Report. I conveyed these feelings to Mr. Jalal (AIDO).

Mr. Al-Khazlan would like to receive a copy of our study. Please see to it that he receives it when it is ready for distribution. He believes

that we could team up on future projects. I hesitated to bring the extensions to aromatics at this stage having some serious questions about the Report and given Mr. Al-Khudayri's estimates of its worth.

I did not receive any compensation from either AIDO or the SCH for the trip. Although I believe that UNIDO should bill AIDO for the cost of the ticket and per diem. Mr. Jalal believes AIDO will pay for these costs.

January 31, 1984

Report on the meeting of the expert group on Arab capital goods industries, Algiers, Algeria, January 15-17, 1984.

Dr. David W. Butterfield, representing Econometric Research Ltd., travelled to Vienna on January 12 and 13 where he consulted with Mr. Karlsson, Mr. Ghani and Dr. Derakhshani of IS/SEC regarding his participation in the meeting. Dr. Butterfield and Dr. Derakhshani attended the meeting.

The meeting was chaired by Dr. Shalash of AIDO, while Dr. Rouag of AIDO-Algiers made the local arrangements. The main purpose of the meeting was discussion of the report, The Development of the Capital Goods Sector in the Arab Countries, prepared by the Economist Intelligence Unit (EIU) for AIDO. No representatives of EIU attended the meeting. The report was presented by Dr. Sabah Kachachi (Deputy Minister, Ministry of Light Industry, Iraq), who supervised the preparation of the report for AIDO. The meeting was attended by approximately 30 people, including representatives from Algeria, Iraq, Jordan, Qatar and Syria, as well as ECWA, the Arab Industrial Investment Co., the General Union of Chambers of Commerce for Arab Countries, and the Gulf Organization for Industrial Consulting.

The entire first day of the meeting, January 15 was taken up by a presentation of the EIU report by Dr. Kachachi. Questions of clarification were asked during the presentation and additional comments were made at the end of the presentation. The UNIDO representatives were handicapped in this discussion because only volume 5 of the report had been released to UNIDO. In addition the other five volumes of the report were not made available to the UNIDO

representatives at the meeting.

The morning of the second day of the meetings was devoted to a discussion of the recommendations contained in volume 6 of the report. Again the UNIDO representatives were handicapped because they had no access to this volume.

On the afternoon of the second day of the meetings, the UNIDO representatives were invited to speak. Dr. Derakhshani discussed the role of UNIDO in assisting in industrial development, described UNIDO activities, and emphasized the willingness of UNIDO to assist AIDO in any aspects of their programme where UNIDO might be of help. Dr. Butterfield presented the UNIDO study, Arab Demand for Capital Goods in the Short, Medium and Long Term, which he had helped prepare. Details of that presentation are described below.

Dr. Butterfield described the methodology used to prepare the UNIDO forecasts, which is summarized in the attached flow diagram. He emphasized the differences between the AIDO and UNIDO methodology. The UNIDO forecasts are based on a "tops-down" approach, which begins from a broad macroeconomic perspective and then works "down" toward forecasts of demand for specific capital goods at a detailed commodity level. The starting point for the AIDO/EIU forecasts (as can best be determined from the limited information available to UNIDO) is a set of detailed forecasts for the industries using capital goods. These "sectoral" forecasts are prepared at a more disaggregated level than was possible in the UNIDO study. Some effort is made to ensure the macroeconomic consistency of the sectoral forecasts. (The exact procedure is not known, but may be described in the other volumes of the EIU report.)

The demands for specific capital goods are then computed, generally based on known technical coefficients. The two approaches also have different data requirements, which parallel the differences in methodology. The UNIDO approach uses national accounts data and data on imports and exports of capital goods which are available for most countries from published UN sources. The only unpublished data which is required is data on domestic production of capital goods at the detailed product level, for those products where domestic production is significant. The AIDC approach requires data on using sectors at a level of disaggregation which is not available in published sources.

A second methodological feature which distinguishes the UNIDO approach is the incorporation of alternative assumptions concerning the growth of oil revenues for oil-exporting countries and the growth of the manufacturing sector. Each set of forecasts is "conditional" on these underlying assumptions. The differences between forecasts generated from different underlying "conditions" provide a quantitative measure of the sensitivity of the forecasts to changes in the underlying assumptions. The UNIDO methodology allows easy computation of these "sensitivity tests".

The second major point of Dr. Butterfield's remarks concerned the direct comparison of the two sets of forecasts (UNIDO and AIDC/EIU). Since both the underlying methodologies and data differ, one might expect substantial differences between the two sets of forecasts. Direct comparison was possible only for some of the sixteen products discussed in volume 5 of the EIU report. For many of these products the EIU definitions did not correspond to the categories used in the

the UNIDO study. For other products the EIU forecasts were made in terms of physical units, while the UNIDO forecasts were all in constant 1980 U.S. dollar values. Direct comparison of forecasts was possible for only three products; textile and related machinery, construction equipment, and machine tools. The forecasts are shown in Table 1.

Table 1: UNIDO and AIDO/EIU Forecasts of the Demand for Selected Capital Goods

<u>Product</u>	<u>1990</u>		<u>2000</u>	
	AIDO	UNIDO(LT)	AIDO	UNIDO(LT)
Construction Equipment	2900	3106	3500	4877
Machine Tools	788	865	1620	1505
Textile and Related Machinery	1115	1039	1740	1527

- Notes:
1. AIDO/EIU forecasts are taken from volume 5 of the EIU study.
 2. The UNIDO Low Trend (LT) values were used for comparison since these provide the "base" case for the UNIDO forecasts (and also the lowest forecast values).
 3. All values are in million 1980 U.S. dollars.

In addition to the above comparisons, the AIDO study contains a geographical breakdown of the forecasts of demand for construction equipment, which are compared to the UNIDO forecasts in Table 2.

Table 2: Forecasts of the Demand for Construction Equipment in the Arab Countries by Region in 1990

<u>Region</u>	AIDO	UNIDO (LT)
North Africa	851	765
West Asia		
Northern Arab	909	564
Arabian Peninsula	1107	1786
<i>Total</i>	2016	2350

Notes: See Table 1.

The comparisons shown in Tables 1 and 2, although fragmentary, suggest that the UNIDO and AIDO forecasts are broadly similar, so that the two sets of forecasts are likely to reinforce each other. This is because different methodologies and data sets appear to yield broadly similar results. Dr. Butterfield suggested that a detailed comparison of the two sets of forecasts would be desirable. He also stated that the measures of the sensitivity of the forecasts to assumptions concerning oil revenues and the growth of manufacturing which are contained in the UNIDO study might be of use to AIDO.

The formal meetings ended on January 16th, with the 17th devoted to tours of three different manufacturing facilities. Dr. Butterfield visited two of the plants before leaving to make air connections.

Flow Diagram for Methodology for
Capital Goods Demand Forecasts

